

**REDEVELOPMENT AGENCY
OF THE COUNTY OF SAN DIEGO
FINANCIAL STATEMENTS
JUNE 30, 2009**

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
Financial Statements
For the Fiscal Year Ended June 30, 2009

TABLE OF CONTENTS

Independent Auditor’s Report	1	
 Basic Financial Statements:		
Government-wide Financial Statements		
Statement of Net Assets	3	
Statement of Activities	5	
Fund Financial Statements		
Balance Sheet – Governmental Funds	6	
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	9	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	10	
Reconciliation of the Net Change in Fund Balances to the Statement of Activities– Total Governmental Funds.....	12	
Notes to Basic Financial Statements	13	
 Required Supplemental Information		
Schedule of Revenues, Expenditures, and Changes in Fund Balances		
Budget and Actual – All Governmental Funds –		
Gillespie Field Redevelopment Special Revenue Fund.....	31	
Gillespie Field Housing Fund	32	
Upper San Diego River Redevelopment Special Revenue Fund.....	33	
Upper San Diego River Housing Fund	34	
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>.....		35





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INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board
Redevelopment Agency of the County of San Diego
San Diego, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the County of San Diego (Agency), a component unit of the County of San Diego, California, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of the Redevelopment Agency of the County of San Diego as of June 30, 2009, and the respective changes in financial position, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2009, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Agency has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The accompanying required supplemental information, major special revenue funds budgeting comparison schedules on pages 31 through 34 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Statements Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
October 8, 2009

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
STATEMENT OF NET ASSETS
June 30, 2009

ASSETS

	Governmental Activities
Equity in pooled cash and investments	\$ 9,820,184
Cash and investments with fiscal agents	1,154,993
Accounts receivable	55,841
Tax increment receivable	241,341
Interest receivable	185,851
Prepaid items	482,906
Loan receivable	1,000,000
Deferred charges - net of accumulated amortization of \$55,181	360,602
	<hr/>
Total Assets	13,301,718

LIABILITIES

Accounts payable	517,889
Interest payable	67,133
Unearned revenue	51,000
Long-term debt:	
Due in one year	402,449
Due in more than one year	19,600,773
	<hr/>
Total Liabilities	20,639,244

NET ASSETS

Restricted for:	
Debt service	1,087,860
Low and moderate income housing	4,910,763
	<hr/>
Total restricted net assets	5,998,623
Unrestricted (deficit)	(13,336,149)
	<hr/>
Total Net Assets (Deficit)	\$ (7,337,526)

See accompanying notes to basic financial statements

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REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental Activities:		
Expenses:		
Community development - projects	\$ 810,619	\$ (810,619)
Pass-through payments - school districts	722,027	(722,027)
Interest on long-term debt	898,836	(898,836)
Total	<u>\$ 2,431,482</u>	<u>(2,431,482)</u>
General revenues:		
Incremental property taxes		3,993,749
Use of money and property		259,112
Other income		50,000
Total general revenues		<u>4,302,861</u>
Change in Net Assets		1,871,379
Net Assets (Deficit) - Beginning of fiscal year		<u>(9,208,905)</u>
Net Assets (Deficit) - End of fiscal year		<u>\$ (7,337,526)</u>

See accompanying notes to basic financial statements

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REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2009

FUND BALANCES - GOVERNMENTAL FUNDS

\$ 12,052,185

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

Interest accrued on loans receivable are not available to pay for current expenditures and, therefore are offset by deferred revenue in the governmental funds.

151,644

Property tax revenues that do not provide current financial resources (not received within the 60 days after year-end), are reported as deferred revenues in the governmental funds but are recognized as revenues in the Statement of Activities

168,398

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the funds:

Deferred charges are not available to pay for current period expenditures and therefore are not reported as governmental fund assets. These deferred charges are net of \$55,181 accumulated amortization.

360,602

Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. In addition to that, Bond Discounts are expended in Governmental Funds in the year of sale but are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.

(20,070,355)

NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES

\$ (7,337,526)

See accompanying notes to basic financial statements

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Gillespie Field		
	Redevelopment Special Revenue Fund	Special Revenue Housing Fund	Debt Service Fund
REVENUES			
Property tax increment	\$ 2,280,161	\$ -	\$ -
Use of money and property	57,700	54,350	3,380
Other income			
Total Revenues	2,337,861	54,350	3,380
EXPENDITURES			
Current:			
Community development	123,926	50,573	
Debt service:			
Principal	59,151		335,000
Interest and fiscal charges			812,214
Pass through agreements - school districts	496,788		
Total Expenditures	679,865	50,573	1,147,214
Excess of Revenues Over (Under) Expenditures	1,657,996	3,777	(1,143,834)
OTHER FINANCING SOURCES (USES)			
Transfers in		456,032	1,139,584
Transfers out	(1,595,616)		
Total Other Financing Sources (Uses)	(1,595,616)	456,032	1,139,584
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	62,380	459,809	(4,250)
FUND BALANCES, BEGINNING OF FISCAL YEAR (RESTATED)	2,212,467	2,848,207	1,159,243
FUND BALANCES, END OF FISCAL YEAR	\$ 2,274,847	\$ 3,308,016	\$ 1,154,993

See accompanying notes to basic financial statements

Upper San Diego River		
Redevelopment Special Revenue Fund	Special Revenue Housing Fund	Total Governmental Funds
\$ 1,705,505	\$ -	\$ 3,985,666
96,065	17,617	229,112
50,000		50,000
<u>1,851,570</u>	<u>17,617</u>	<u>4,264,778</u>
579,432	56,688	810,619
		394,151
		812,214
<u>225,239</u>		<u>722,027</u>
<u>804,671</u>	<u>56,688</u>	<u>2,739,011</u>
<u>1,046,899</u>	<u>(39,071)</u>	<u>1,525,767</u>
	341,101	1,936,717
<u>(341,101)</u>		<u>(1,936,717)</u>
<u>(341,101)</u>	<u>341,101</u>	
705,798	302,030	1,525,767
<u>3,157,428</u>	<u>1,149,073</u>	<u>10,526,418</u>
<u>\$ 3,863,226</u>	<u>\$ 1,451,103</u>	<u>\$ 12,052,185</u>

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
RECONCILIATION OF THE NET CHANGE IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES -
TOTAL GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

NET CHANGE IN FUND BALANCES \$ 1,525,767

Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

LONG-TERM DEBT PAYMENTS

The reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets". 394,151

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Revenues that do not provide current financial resources are not reported as revenues in the funds (deferred revenue) but are recongnized as revenue in the statement of activities. 30,000

Governmental funds accrue property tax revenue which is deemed collectible within 60 days. However, for the statement of activities the total amount estimated to ultimately be collected is accrued. 8,083

Accrued interest payable on long-term debt, net change for the period. 1,103

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (87,725)

CHANGE IN NET ASSETS \$ 1,871,379

See accompanying notes to basic financial statements

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - General

The San Diego County Board of Supervisors created the Redevelopment Agency of the County of San Diego (Agency) on March 4, 1975 in accordance with California Redevelopment Law. The Board of Supervisors of the County of San Diego has by Ordinance No. 4393 (New Series) declared itself to be the governing board. The Department of Housing and Community Development provides administrative oversight for the Agency. The Agency has two projects: Gillespie Field Redevelopment Project managed by the Department of Public Works (DPW) and the Upper San Diego River Redevelopment Project (USDRIP) managed by Department of Planning and Land Use (DPLU).

The Agency was established to provide a method for eliminating slums and blighted areas, improving housing, expanding employment opportunities, and providing an environment for the social, economic and psychological growth, and well-being of all citizens of the County. The Gillespie Field Project Area is approximately 746 acres located at Gillespie Field Airport in the City of El Cajon. USDRIP is a redevelopment project covering 529 acres located along both sides of the San Diego River and along Highway 67 in the community of Lakeside.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Redevelopment Agency of the County of San Diego (Agency) conform to accounting principles generally accepted in the United States of America (USGAAP) applicable to governmental units. The following is a summary of the more significant of such policies:

a. Reporting Entity

The accompanying financial statements report on the financial activities of the Agency. The Agency, a blended component unit of the County, is a separate but related entity, of the County. The Agency's financial statements are also included in the County's Comprehensive Annual Financial Report (CAFR). The reason for including the Agency in the CAFR is the exercise of oversight responsibility over the Agency's activities by the County Board of Supervisors who also act as the Agency's Board of Directors.

Pursuant to Health and Safety Code sections 33080 through 33080.4 the Agency is required to submit an annual report to the Local Governmental Fiscal Affairs (LGFA) unit of the State Controller within six months of the end of the Agency's fiscal year. The Annual report includes completed financial reports, a component unit audit, and the report on the Status and Use of the Low and Moderate Income Housing Fund. It is prepared in conjunction with the Departments of Housing and Community Development Planning and Land Use, Public Works, and County Auditor and Controller. Failure to meet the deadline will result in a fine of up to \$10,000.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation

Statement of Net Assets presents government-wide information of the Agency's assets, liabilities, and net assets. It measures not only the current liabilities but also long-term liabilities of the Agency.

Statement of Activities reports the operations of the Agency. It measures the revenues and expenses by functions or activities using the economic resources measurement focus and accrual basis of accounting; revenues and expenses resulting from exchange and exchange-like transactions are reported when the exchange occurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after fiscal year-end. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on long-term debt, if any, is recognized when due.

Fund Statements consist of the Combined Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Long-term debt/receivable is eliminated in the Balance Sheet because governmental fund statements are only required to report assets and liabilities that are due during the fiscal year or soon thereafter. The principal payment of Debt Service is recorded as an expense in the Statement of Revenues, Expenditures, and Changes in Fund Balances but not in the Statement of Activities because revenues and expenses are to be recognized in the fund statements when cash or services are received during the current fiscal year or soon thereafter.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The financial transactions of the Agency are recorded in individual funds. The various funds are reported by type in the financial statements. The Redevelopment Agency uses the following governmental fund types:

Redevelopment Special Revenue Funds

These funds are used to account for financial resources obtained and used for pass-through payments to taxing entities recorded in the Gillespie Field Redevelopment Special Revenue and Upper San Diego River Redevelopment Special Revenue Funds. Also included are mandatory set-asides for housing projects.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Debt Service Fund

This fund is used to account for the accumulation of resources for the payment of principal and interest of the Revenue Refunding Bonds, Series 2005 (Gillespie Project).

Interfund activity between funds is eliminated to minimize the doubling effect in both the fund and government-wide statements

c. Low and Moderate Income Housing

Per Health and Safety Code Section 33334.2, not less than 20% of all taxes which are allocated to the agency pursuant to Health and Safety Code Section 33670 must be set aside by the Agency for the purpose of increasing, improving, and preserving the community's supply of low and moderate income housing.

The reserves for the Upper San Diego River Project and the Gillespie Field Project that represent the required 20% set aside for housing amounted to \$875,442 and \$2,400,771 respectively, at June 30, 2009.

d. Major Funds

GASB Statement No. 34 defines major funds and requires that the Agency's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total of all fund types. The Agency has determined that all its funds are major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

Housing Funds – Gillespie Field and Upper San Diego River Project Areas – These funds account for the portion of County tax increment funds received for redevelopment related purposes, and set aside for low and moderate income housing.

Redevelopment Special Revenue Funds – Gillespie Field and Upper San Diego River Project Areas – These funds account for property tax increment revenues received for each project area and records pass-through payments to school districts and other taxing entities. These funds also account for transfers of the required 20% set aside to the Housing Funds for each project area.

Debt Service Fund – Gillespie Field Project Area – This fund accounts for debt service payments on the Agency's long-term debt issues.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

e. Accounting Policies

Revenue

The Agency's primary source of revenue is property taxes, referred to in the accompanying component unit financial statements as "incremental property taxes". Property taxes allocated to the Agency are computed in the following manner:

- a. The assessed valuation of all property in the Project Areas is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment role.
- b. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the County and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the County. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the County.

The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from State and federal governments, interest income, and the issuance of Agency debt.

Property Taxes

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of San Diego levies, bills, and collects property taxes for the Agency; the County reunites the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

f. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP), except that the Special Revenue Funds' expenditures are budgeted normally on a project length basis rather than annually. Formal budgetary integration is employed as a management control device.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

g. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, deferred loss on refundings, and issuance costs, are deferred and amortized over the life of the bonds. These items are reported as deferred charges and amortized over the term of the related debt.

h. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3 – Reconciliation of Government-Wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The Governmental fund balance sheet includes reconciliation between fund balance- total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets.

Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. In addition to that, Bond Discounts are expended in Governmental Funds in the year of sale but are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.

Revenue Bonds	\$ 14,985,000
Accrued interest payable	1,014,070
Due to County of San Diego-Loans	4,111,136
Discount on Debt Issued net of amortization of \$6,097	(39,851)
	<u>\$ 20,070,355</u>

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 3 – Reconciliation of Government-Wide and Fund Financial Statements (Continued)

2. Explanation of certain differences between the governmental fund's statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

The reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets". The details of this adjustment are as follows:

Debt principal repayment:

Due to County of San Diego	\$ 59,151
Revenue bonds	<u>335,000</u>
	<u>\$ 394,151</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The details of this (\$87,725) difference are as follows:

Amortization of issuance costs	\$ (15,399)
Amortization of bond discount	(1,702)
Change in accrued interest payable on long-term debt	<u>(70,624)</u>
	<u>\$ (87,725)</u>

Note 4 – Equity in Pooled Cash and Investments

The Redevelopment Agency's cash and cash equivalents are reported on the balance sheet as "Equity in Pooled Cash and Investments". The County maintains a cash and investment pool that is available for use by all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated quarterly based on the average daily cash balances of the participating funds. It is adjusted to reflect fair value per GASB Statement No. 31 and to reflect availability of revenues from other funds to comply with GASB Statement No. 33.

Further disclosures regarding the County's cash and investment pool are included in the notes to the County's CAFR for the fiscal year ended June 30, 2009.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 4 – Equity in Pooled Cash and Investments (Continued)

Restrictions on Cash Balances

Cash balances of \$3,145,121 at June 30, 2009 are restricted by law for Low and Moderate Income Housing.

Equity in pooled cash and investments are reported as follows in the Statement of Net Assets:

Equity in pooled cash and investments	\$9,820,184
Cash and Investments with Fiscal Agents	\$1,154,993

Investments Authorized by the California Government code and the Agency's Investment Policy.

The table below identifies the **investment types** that are authorized for the Agency and the debt proceeds held by bond trustee per debt agreements by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address **interest rate risk, credit risk, and concentration of credit risk**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	25%
Local Agency Obligations	5 years	15%	10%
Bankers Acceptance	180 days	40%	5%
Commercial Paper	270 days	40%	5%-10%
Medium Term Notes	5 years	30%	5%
Negotiable Certificates of Deposits	5 years	30%	5%
Repurchase Agreement	1 year	40%	10%-15%
Reverse Repurchase Agreement	92 days	20%	10%
Collateralized Certificates of Deposits	1 year	10%	None
Covered Call Option/Put Option	90 days	10%	None
Money Market Mutual Fund	N/A	15%	10%
Local Agency Investment Fund (State Pool)	N/A	10%	None
Pass-Through Securities	5 years	20%	5%

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 4 – Equity in Pooled Cash and Investments (Continued)

Information about the sensitivity of the fair values of the Agency's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
Held by Bond Trustee:							
Federated Treasury							
Obligation Money Market	<u>\$ 1,154,993</u>	<u>\$ 1,154,993</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 1,154,993</u>	<u>\$ 1,154,993</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above). The Agency does not hold any specific investments that need to be reported here.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				Standard & Poor's	Moody's	Fitch	Not Rated
Held by Bond Trustees:							
Federated Treasury							
Obligation Money Market	\$ 1,154,993	N/A	\$ -	AAAm	Aaa	N/A	

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 4 – Equity in Pooled Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2009, the Agency has all of its deposits pooled with the County. As of June 30, 2009, Agency investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Federated Treasury Obligation	\$ 1,154,993

Note 5 – Long-Term Debt and Due to County of San Diego

Long-term debt is reported in the Statement of Net Assets. Changes in long-term debt for the fiscal year ended June 30, 2009, are as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Due within One Year
Due to County of San Diego-					
loans	\$ 4,170,287	\$ -	\$ 59,151	\$ 4,111,136	\$ 59,151
Interest on loans	876,313	70,624		946,937	
Revenue bonds payable	15,320,000		335,000	14,985,000	345,000
Less: unamortized discount	(41,553)		(1,702)	(39,851)	(1,702)
Total	\$ 20,325,047	\$ 70,624	\$ 392,449	\$ 20,003,222	\$ 402,449

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 6 – Pledged Revenue

Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity as of June 30 (In Thousands)	Debt Principal and Interest Paid During Fiscal Year (In Thousands)	Current Fiscal Year Revenue (In Thousands)
Series 2005A Revenue Refunding Bonds	2033	\$26,722	\$1,147	\$1,176

• *Series 2005 Revenue Refunding Bonds*

In December 2005, the San Diego County Redevelopment Agency (Redevelopment Agency) issued \$16 million Revenue Refunding Bonds Series 2005A that mature in fiscal year 2032-33. The Redevelopment Agency has pledged property tax increment revenues generated within the Gillespie Field Project Area to pay for the bonds. Gillespie Field Airport revenues may also be used to fund debt service payments if there are insufficient property tax revenues to cover a particular fiscal year's debt service requirement. Bonds are also payable from funds held under the Indenture, including earnings on such funds. As shown in the table above, the pledged revenue represents the debt service requirements to maturity of the bonds at June 30.

Note 7 - Long-term Receivable and Prepaid Items

Long-term Receivable

A resolution of the Board of Directors of the Redevelopment Agency of the County of San Diego and the Board of Supervisors was approved to use the Low and Moderate-Income Housing Funds from the Gillespie Field and Upper San Diego River. This resolution authorizes \$1,356,000 loan to Metropolitan Area Advisory Committee. The \$1,000,000 advance from the Redevelopment Agency Housing Funds is to acquire 55-year rent affordability covenants and \$356,000 in the Community Development Block grant funds to rehabilitate the Villa Lakeshore Apartments in the community of Lakeside, a 34-unit housing project of the Metropolitan Area Advisory Committee Project. This proposal is in response to the 2003 Affordable Housing Open Notice of Funding Availability. In exchange for the \$1,356,000 loan, the MAAC Project will maintain affordable rents for 55 years for low-income families earning at or below 50 percent and 60 percent of the area median income (AMI).

Prepaid Items

A prepaid item was established between the Department of Housing Community and Development to move the entire amount \$1,530,215 approved funding as per Management Agreement dated February 24, 2003. A total amount of \$1,472,420 was advanced to the Housing Authority for funding the Rental Assistance program with an ending balance of \$482,906 on June 30, 2009.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 8 – Administrative Costs

These amounts are accounted for as prescribed in the State Controller's "Uniform Accounting System for Community Redevelopment Agencies." Included within this classification are salaries and wages of County employees engaged in planning, survey, and design work for the Upper San Diego River Project.

Note 9 – Commitments

Future Tax Revenues

Litigation regarding the Gillespie Field Redevelopment Project was settled on June 26, 1989. The Agency is essentially obligated to provide future property tax revenue considerations to certain school districts, as defined in the Settlement Agreement.

Additionally, cooperation agreements exist between the Agency and certain school districts regarding the Upper San Diego River Project, obligating the Agency to provide future property tax revenue considerations to these school districts. This started in Fiscal Year 1991/92 when tax increment revenue collection began for the Upper San Diego River Project. Future property tax revenue considerations for the two projects cannot be reasonably estimated since these revenues are based upon future economic conditions.

Lakeside Fire Protection District

The Redevelopment Agency reenergized its Upper San Diego River Improvement Project Five-Year Implementation Plan to development projects within the community of Lakeside. Upper San Diego River committed \$15,510,000 to the Lakeside Fire Protection District to build a new fire station, administrative offices, meeting rooms, apparatus repair shop, and a training annex in accordance with the Cooperation Agreement between the District and Upper San Diego River. Before annual reimbursements are disbursed to the District, the agreement requires the District to provide the Agency an annual report detailing its compliance with the project plan including itemizing its project cost. In fiscal year 2008-2009, \$360,000 was disbursed to the District and another \$3.15 million may be disbursed in fiscal year 2009-2010 provided the District is in compliance with the project plan. For the remaining 30 years, Upper San Diego River is scheduled make annual disbursements of \$400,000 from fiscal year 2010-2011 through 2039-2040. Funding sources to reimburse the District are coming from tax increment revenues and available fund balance.

Chelsea Investment Corporation Loan

The Board of Supervisors approved the resolution to authorize loans of up to \$8.51 million to the Chelsea Investment Corporation to acquire and development the Silversage Apartments located in Lakeside, California. A loan of up to \$6,092,927 is being financed from U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnerships and Community Development Block Grant grant funds. The remaining \$2,417,073 loaned to the Chelsea Investment Corporation will be financed from the Redevelopment Agency Housing Funds, \$1,891,449 from the Gillespie Field Housing Fund and \$525,624 from the Upper San Diego Housing Fund. The Silversage Apartments will be an 80-unit multifamily affordable housing project and will have rent restrictions for a period of 55 years.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 9 – Commitments (Continued)

These units will be affordable to low-income households earning no more than 60% of the Area Median Income.

General

There are certain claims against the Agency which have been denied and referred to the Agency insurance carrier. The Agency believes that none of these claims will exceed insurance coverage.

Note 10 – Net Assets and Fund Balances

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets are divided into three captions under GASB Statement No. 34. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these capital assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income housing purposes.

Unrestricted describes the portion of Net Assets which is not restricted as to use.

B. Fund Balances

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent that portion of fund balance which is legally segregated for low and moderate income housing projects as required by the California Health and Safety Code or debt service expenditures as required under bond indenture.

Note 11 – Financial Condition

The agency has a deficit net assets of \$7,337,526 at June 30, 2009. The agency projects that future resources will be sufficient to pay long-term obligations as they become due.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 12 – Restatement

a. Change of Governmental Fund Type

In fiscal year 2008-2009 management reviewed the governmental fund type classifications for the San Diego County Redevelopment Agency. It was determined the Gillespie Field Revenue Fund ("Revenue Fund") formerly classified as a debt service fund should become a special revenue fund for the 2008-2009 financial statements. The fund's predominate source of income is from property tax increment revenues that are restricted to cover pass-through payments to taxing entities located within the Gillespie Field project area, other financing uses such as transfers of the 20% set aside to the Gillespie Field Housing Fund, transfers to the Gillespie Field Debt Service Fund to pay principal and interest on the Series 2005A Revenue Refunding Bonds and transfers to the Gillespie Field Administrative Fund (formerly the Gillespie Field Capital Projects Fund) for administrative costs.

For the 2008-09 financial statements, the Revenue fund and the Gillespie Field Administrative Fund were combined and the fund name was changed from Gillespie Field Capital Projects Fund to "Gillespie Field Redevelopment Special Revenue Fund". The new fund is presented under the Gillespie Field Heading on the Balance Sheet, Statement of Revenues, Expenditures, and Changes in Fund Balances and the Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Gillespie Field Redevelopment Special Revenue Fund financial statements.

It was also determined the Upper San Diego River Capital Projects Fund should be classified as a Special Revenue Fund for the 2008-2009 financial statements. The fund's new title became "Upper San Diego River Redevelopment Special Revenue Fund". Even though the above fund incurs expenditures to fund project activities within the Upper San Diego River project area, the expenditures are mainly to reimburse special districts located within the project area for their capital outlays. The expenditures recorded in this fund do not result in assets being capitalized on the statement of net assets of the Redevelopment Agency. As with the Gillespie Field Special Revenue Fund, the Upper San Diego River Redevelopment Special Revenue Fund's predominate source of income comes from property tax increment revenues that are restricted to reimburse special districts as described above, to make pass-through payments to school districts located within the Upper San Diego River project area and 20% set aside to the Upper San Diego River Housing Fund.

The Gillespie Field Housing and Upper San Diego River Housing Funds were also classified to special revenue funds for the 2008-2009 financial statements as a result of the change in governmental fund type classification. The predominate source of income for these funds are from operating transfers of property tax increment received from the Gillespie Field Special Revenue Fund and Upper San Diego River Redevelopment Special Revenue Fund.

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 12 – Restatement (Continued)

b. Affect of governmental fund type change on beginning fund balances

The table below presents how the change in governmental fund type classification for the Gillespie Field Debt Service and Gillespie Field Redevelopment Special Revenue Funds affects the ending fund balances at June 30, 2008.

	Gillespie Field Debt Service Fund	Gillespie Field Redevelopment Special Revenue Fund (formerly the Gillespie Field Capital Projects Fund)
Fund balances as of June 30, 2008	\$2,917,931	\$453,779
Gillespie Field Revenue Fund ending fund balance at close of books on June 30, 2008 formerly included as a debt service fund in prior years now classified as a special revenue fund	(1,255,403)	1,255,403
GASB 31 adjustment recorded in the 2007-08 financial statements that belongs to the Revenue Fund	(7,518)	7,518
Adjustment to the 2007-08 pass-through payment to school districts	(35,918)	35,918
Adjustment for the accrual of property tax revenue recorded in the 2007-08 financial statements	(12,366)	12,366
Adjustment for the recording of property tax revenues held in the Gillespie Field Redevelopment Agency trust fund at June 30, 2008	(448,677)	448,677
Adjustment for the accrual recorded in the 2007-08 financial statement for the 20% set aside to the Gillespie Field Housing Fund	1,194	(1,194)
Fund Balance, restated June 30, 2008	<u>\$1,159,243</u>	<u>\$2,212,467</u>

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Note 12 - Restatement (Continued)

b. Affect of governmental fund type change on beginning fund balances (Continued)

There was no affect on the beginning fund balances for the Gillespie Field Housing, Upper San Diego River Redevelopment Special Revenue and Upper San Diego River Housing Funds since the presentation of these funds in the financial statements did not change (each fund still has its own column presented in the financial statements).

c. Affect of governmental fund type change on method of accounting

The method of accounting as a result of the change in governmental fund type (from Capital Projects to Special Revenue) did not change since all governmental fund types (general, special revenue, debt service, capital projects and permanent funds) use the modified accrual basis of accounting (see Note 2 (b) "Basis of Presentation").

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REQUIRED SUPPLEMENTARY INFORMATION

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GILLESPIE FIELD REDEVELOPMENT SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property tax increment	\$ 2,221,422	\$ 2,221,422	\$ 2,280,161	\$ 58,739
Use of money and property	107,000	107,000	57,700	(49,300)
Total Revenues	<u>2,328,422</u>	<u>2,328,422</u>	<u>2,337,861</u>	<u>9,439</u>
EXPENDITURES				
Current:				
Community development	164,269	157,157	123,926	33,231
Debt service:				
Principal	59,200	59,200	59,151	49
Pass through agreements - school districts	517,152	681,108	496,788	184,320
Total Expenditures	<u>740,621</u>	<u>897,465</u>	<u>679,865</u>	<u>217,600</u>
Excess of Revenues Over (Under) Expenditures	<u>1,587,801</u>	<u>1,430,957</u>	<u>1,657,996</u>	<u>227,039</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,587,801)	(1,594,983)	(1,595,616)	(633)
Total Other Financing Sources (Uses)	<u>(1,587,801)</u>	<u>(1,594,983)</u>	<u>(1,595,616)</u>	<u>(633)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses		(164,026)	62,380	226,406
FUND BALANCE, BEGINNING OF FISCAL YEAR (RESTATED)	<u>2,212,467</u>	<u>2,212,467</u>	<u>2,212,467</u>	
FUND BALANCE, END OF FISCAL YEAR	<u>\$ 2,212,467</u>	<u>\$ 2,048,441</u>	<u>\$ 2,274,847</u>	<u>\$ 226,406</u>

See notes to required supplementary information

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GILLESPIE FIELD HOUSING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Use of money and property	\$ 65,000	\$ 65,000	\$ 54,350	\$ (10,650)
Total Revenues	65,000	65,000	54,350	(10,650)
EXPENDITURES				
Current:				
Community development	505,587	2,397,036	50,573	2,346,463
Total Expenditures	505,587	2,397,036	50,573	2,346,463
Excess of Revenues Over (Under) Expenditures	(440,587)	(2,332,036)	3,777	2,335,813
OTHER FINANCING SOURCES (USES)				
Transfers in	440,587	440,587	456,032	15,445
Total Other Financing Sources (Uses)	440,587	440,587	456,032	15,445
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses		(1,891,449)	459,809	2,351,258
FUND BALANCE, BEGINNING OF FISCAL YEAR	2,848,207	2,848,207	2,848,207	
FUND BALANCE, END OF FISCAL YEAR	<u>\$ 2,848,207</u>	<u>\$ 956,758</u>	<u>\$ 3,308,016</u>	<u>\$ 2,351,258</u>

See notes to required supplementary information

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
UPPER SAN DIEGO RIVER REDEVELOPMENT SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property tax increment	\$ 1,674,000	\$ 1,679,409	\$ 1,705,505	\$ 26,096
Use of money and property	70,000	70,000	96,065	26,065
Other income	-	-	50,000	50,000
Total Revenues	1,744,000	1,749,409	1,851,570	102,161
EXPENDITURES				
Current:				
Community development	4,202,000	4,202,000	579,432	3,622,568
Pass through agreements - school districts	207,000	207,000	225,239	(18,239)
Total Expenditures	4,409,000	4,409,000	804,671	3,604,329
Excess of Revenues Over (Under) Expenditures	(2,665,000)	(2,659,591)	1,046,899	3,706,490
OTHER FINANCING SOURCES (USES)				
Transfers out	(335,000)	(340,409)	(341,101)	(692)
Total Other Financing Sources (Uses)	(335,000)	(340,409)	(341,101)	(692)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,000,000)	(3,000,000)	705,798	3,705,798
FUND BALANCE, BEGINNING OF FISCAL YEAR	3,157,428	3,157,428	3,157,428	
FUND BALANCE, END OF FISCAL YEAR	\$ 157,428	\$ 157,428	\$ 3,863,226	\$ 3,705,798

See notes to required supplementary information

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
UPPER SAN DIEGO RIVER HOUSING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Use of money and property	\$ 3,350	\$ 3,350	\$ 17,617	\$ 14,267
Total Revenues	3,350	3,350	17,617	14,267
EXPENDITURES				
Current:				
Community development	338,350	863,974	56,688	807,286
Total Expenditures	338,350	863,974	56,688	807,286
Excess of Revenues Over (Under) Expenditures	(335,000)	(860,624)	(39,071)	821,553
OTHER FINANCING SOURCES (USES)				
Transfers in	335,000	335,000	341,101	6,101
Total Other Financing Sources (Uses)	335,000	335,000	341,101	6,101
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	(525,624)	302,030	827,654
FUND BALANCE, BEGINNING OF FISCAL YEAR	1,149,073	1,149,073	1,149,073	
FUND BALANCE, END OF FISCAL YEAR	<u>\$ 1,149,073</u>	<u>\$ 623,449</u>	<u>\$ 1,451,103</u>	<u>\$ 827,654</u>

See notes to required supplementary information

REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2009

Budgetary Information

General Budget Policies

California Government Code Section 29088 requires the Board of Directors to adopt the final budget no later than August 30, 2008, unless formally extended. The annual resolution adopts the budget at the object level of expenditures within departments. Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year with the approval of the Board of Directors.

Appropriations may also be adjusted during the year with the approval of the Board of Directors. Additionally, the Chief Financial Officer is authorized to approve certain transfers and revisions of appropriations within a department. Such adjustments are reflected in the final budgetary data. Accordingly, the legal level of budgetary control by the Board of Directors is the department level.

The schedule of revenues, expenditures, and changes in fund balance – budget and actual for the Gillespie Field Special Revenue Fund, Gillespie Field Housing Fund, Upper San Diego River Special Revenue Fund, and Upper San Diego River Housing Fund that is presented as Required Supplementary Information was prepared in accordance with generally accepted accounting principles (GAAP).

The Original Budget consists of the adopted budget. The original budget is also adjusted to reflect reserves, transfers, allocations and supplemental appropriations that may occur prior to the start of the fiscal year. The Agency adopts its budget subsequent to the start of each fiscal year by August 30th. The final budget includes the original budget plus amended budget changes occurring during the fiscal year.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Governing Board
Redevelopment Agency of the County of San Diego
San Diego, California

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the County of San Diego (Agency) a component unit of the County of San Diego, California as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated October 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of Agency's financial statements that is more than inconsequential will not be prevented or detected by Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Agency's Board of Directors, management, the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
October 8, 2009